

## Washington State Liquor Control Board

**INTER-OFFICE CORRESPONDENCE**

Town: Olympia, Washington

Date: September 17, 1974

To: Memorandum for file

From: James E. Hoing, Controller

Subject: Minutes of September 16, 1974 meeting in the Governor's Office on problems of wine wholesalers.

On September 16, 1974 Board Chairman Jack Hood, accompanied by James E. Hoing, Controller, met in the Governor's Office with Governor Evans, Secretary of State Lud Kramer, Gallo representative Sid Abrams, Irving Levine of K & L Distributors, Ken Smith of Birkenwald Distributors, Willard Rhodes of Thirftway Stores, Mr. Backman of Backman Distributors, and Dale Shintaffer of Sound Beverage Distributors, to discuss problems being experienced by wine wholesalers in the State of Washington. To the best of my knowledge the meeting was requested by the wine wholesalers, or at least selected wine wholesalers, and was set up by Secretary of State Lud Kramer.

The meeting began with a fifteen or twenty minute charged dissertation by Mr. Levine, stating how it was impossible for the wholesalers and retailers in the State of Washington to compete with the Liquor Control Board and that the Liquor Control Board was in the process of driving them out of business. Mr. Levine didn't go into a lot of specifics, mostly he just rambled, but his theme seemed to be that their costs are continually going up, that their costs comparatively are at a disadvantage in that the state pays lower wages, and they are continually forced into higher and more costly union contracts. He also indicated that the Board's markup is too low for them to compete against and that the Board lowered it to its present level about a year ago. This is just a summary of what Mr. Levine said.

Mr. Ken Smith then indicated that he was being forced to operate at a one-fourth of one percent profit margin and that based on his investment in equipment, inventory, etc. this was not nearly enough. He went on to say that if the Liquor Control Board continues to undersell wines through licensed channels, it will force all of the wine back into the State liquor stores and there wouldn't be any private wine sales in the State of Washington.

Collectively around the table, Willard Rhodes included, the theme then became one of taking credit for the large increase in the wine business beginning after the 1969 wine bill when wine sales showed a fifty percent increase in the first year after House Bill No. 100 went into effect. They indicated that they were responsible for this major increase in wine sales, that they got this increase by actively merchandising wines, and that now we are acting unfairly by waiting until they introduce a particular wine to the market, obtain television advertisements, etc., and then we are stepping in and listing the item and underselling them by an appreciable amount.

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Mr. Rhodes made the point that the customers are losing faith with the grocery stores and other private retailers in that they read in the paper where the Liquor Control Board is making a profit and distributing it in the millions of dollars, and at the same time when they go into the liquor stores the Liquor Board employees are bragging to the customers that Board wines are considerably cheaper than they are in the grocery stores. Mr. Rhodes went on to point out that he felt our competition was unfair in that we don't have to pay the business and occupation tax, we don't have to pay the inventory tax, we don't have to buy a liquor license, and we don't have to pay interest on monies to finance our inventories, etc.

Somewhere along in here, and really it was sooner after Mr. Levine's less than eloquent plea, I indicated that if the Governor would give me ten minutes I would attempt to set some kind of a factual basis upon which we could further the discussion. I then gave the Governor as well as some of the other members of the group my abbreviated report, not the entire version but the abbreviated version, and commenced to work my way through the charts. As soon as I began presenting this material I was immediately and repeatedly interrupted by Mr. Levine, and each time I asked him if he would refrain until I was finished and then we could hear all of his discussion. Finally the Governor indicated to me that it was an informal meeting and it was alright if Mr. Levine interrupted, so I said fine, Irv, go ahead, and we then argued a bit concerning the volume of wine sales in the State of Washington, the fact that we are looking at a fiscal year and Irv likes to think of a calendar year, etc., etc.

As a result of Mr. Levine's interruptions we then got into the fact that they had put their markup on top of the gallonage tax. This at first they seemed to try to deny, but after I showed them an example of what they had done, they indicated that the gallonage tax was what saved them and that is why they are in business today.

I indicated to them that about four years ago the Board Chairman and myself were sitting in the same office with some of the same wholesalers when they indicated that if they could just post their own selling prices their problems would be solved, and the Board allowed this. Also, a year and a half or two years ago they indicated that if the 26% sales tax could be removed and replaced with a gallonage tax this would solve their problems. This also was done. Now, here they are again for a third time, back asking the Board to increase its markup to solve their problems. About this time Mr. Backman interrupted and suggested that I be allowed to go ahead and complete my presentation. At this point I declined and said I was certain the Governor had already worked his way through the material, and so the discussion continued.

I then asked Mr. Levine if the Board increased its markup back up to 53.6% would this solve their problems? Mr. Levine said yes, he thought it would, that it would certainly be a step in the right direction. I said I doubted that it would solve their problems and I asked Ken Smith if he thought it would solve their problems. Mr. Smith as well as Mr. Rhodes stated that no, definitely, this would not solve the problem as the seed has already been planted firmly in the minds of the consumers that state prices are cheaper, and merely going back up to 53.6% markup would not even out the prices, that the state would still be cheaper, and that the problem would be almost as bad as it is now.



We then finally got down to the real guts of the issue, and that was simply whether or not the State of Washington should be in the wine sales business. It was obviously the view of Mr. Rhodes that we had absolutely no business being in the wine retail trade and that the intent of the wine bill was to turn it over to the licensed channels as had been done previously with Washington wines. I am giving Mr. Rhodes credit for this statement but I am not positive that he offered it, but it was either he or Mr. Smith. Mr. Levine then pointed out that the Board should at least go out of the cheap and moderately priced wines sales business and leave this exclusively to the licensed trade and that we should limit ourselves just to the premium wines. Mr. Sid Abrams then volunteered that this wouldn't solve the problem, that the premium wines were coming along pretty good now, and that in a couple of years these same wholesalers would be back again asking for the Board to get out of the premium wine business.

Neither the Governor nor Mr. Kramer volunteered very much during the discussion. The Governor asked the obvious question as to why the Board lowered its markup from 53.6% to 45.9% effective July 1, 1973. Chairman Jack Hood indicated that the change was predicated on criticisms we received during the Initiative 261 campaign concerning our excessive markup, and the fact that all of the prices had to be changed anyway on July 1, 1973 because of the change in the wine tax structure, and it seemed the obvious time to standardize our markup to 45.9% on all products. Those weren't necessarily Jack's exact words, but between the two of us that was the gist of it -- that the Board wanted to standardize its markup and that this was the opportune time to do it.

The Governor then, in response to the wholesalers' charges that we were stealing all of their market, noted that our share of the market had increased from 18.5% to 21% from fiscal 1973 to fiscal 1974, and that our percentage increase was also 21% over the previous year. He asked me if our share of the market would increase that much again in fiscal 1975. My response was that I didn't think so, that I felt the increase during fiscal 1974 was a result of the large differential in prices that started on July 1973, and that unless the differential continued to widen, I felt our increase would slow down in fiscal 1975 because we would now be comparing against a higher base year - fiscal 1974. I assured him that I felt we would have a real good, healthy increase but not in the vicinity of 21%. Mr. Levine immediately charged that the figures for July showed us again with a large increase. This I agreed with but pointed out that July had an extra sale day and that it was compared against the first month of the change of prices a year ago, and that I felt August would be more meaningful.

Somewhere throughout the discussion Mr. Levine produced a letter from Weisfield (Valu-Mart) indicating that they were having to go out of the wine business due to the fact that they could not compete with the Liquor Control Board's prices.

Mr. Kramer got his two bits worth in a couple of times, once where he was summarizing the discussion that had gone on previously, something to the effect that the Liquor Control Board apparently was proud and probably rightly so of their increased volume, their nice stores, etc., but was it really worth it if it meant putting a major industry out of business in the State of Washington and possibly putting 1,400 people out of work.

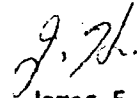
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Oh, yes, somewhere during this discussion Mr. Levine pointed out, or possibly it was Mr. Smith, that in the not too distant future the State of Washington may become one of the leading grape growing areas of the world, not just Concord grapes but good grapes for table wines. In another instance Mr. Levine had made a statement something to the effect that 5% of our sales were wines and that 20% of our stock was wines. I ignored Mr. Levine and went on to some other part of the discussion. Mr. Kramer then brought the discussion back to Mr. Levine's point and asked if I would answer the question. I said most certainly and commenced to explain what the figures were.

I am sure I could go on and remember some more of the conversation, but I think I have covered most of the salient points. Most of the conversation was repetitive; the meeting took about an hour and a half during which the Governor seemed to be very patient and didn't seem to be rushing anyone. While the Governor attempted to be very objective and very impartial, it was my opinion that he was obviously more sympathetic to the cause of the wholesalers than to the Liquor Control Board's programs. It didn't seem that anyone in the meeting was worried much about the consumer and what he had to pay for wines, but rather, of course, whether a sufficient return was being made on the investments and business, etc. of the persons involved in the meeting.

The meeting ended with the Governor indicating that he would study the material that he had, would give the whole subject some thought, and then probably would have a discussion with the Liquor Control Board. Just before the conclusion of the meeting it was agreed by everyone involved that it might very well be necessary for a bill to go to the Legislature for the Legislature to determine whether the State should stay in the business or whether it should be turned over exclusively to private enterprise - it being the contention of the wholesalers that if the State stays in the business they will soon be the only wine entrepreneurs in the State.

Upon leaving the meeting I left an entire copy of my recent study on wines with the Governor in addition to the abbreviated copy that I gave him during the meeting.

  
James E. Hoing  
Controller

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